

163.1

REPORT ON LONG-TERM CONTRACTS
CALIFORNIA STATE EXPOSITION AND FAIR

MAY 1973

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VINCENT THOMAS
CHAIRMAN

ROOM 4126, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814
(916) 445-7906

WALTER J. QUINN, C.P.A., COORDINATOR

(916) 445-1890

BILL PETTITE, CONSULTANT

(916) 445-7906

EVE OSTOJA, COMMITTEE SECRETARY

(916) 445-7908

May 8, 1973

Honorable Pauline Davis, Chairwoman
Joint Committee on Fairs Allocation
and Classification
Room 4148, State Capitol
Sacramento, California 95814

Dear Pauline:

Transmitted herewith is the report on the two long-term Cal-Expo contracts: The 21-year amusement park agreement and the 20-year food and beverage concession agreement.

The purpose of executing long-term leases was to induce the investment of private capital in the Cal-Expo facility. Comparison to other large fairs indicates that in addition to a rental reduction to offset for the approximate \$3 million capital investments made by the contractors, there will probably be a larger amount of loss resulting from the failure of the state to acquire these assets directly.

Two sets of comparisons were made. A comparison with the 1972 fair at Fresno indicates the probable loss to range between \$5 million and \$5.6 million over the 20-year period. The second projection, which includes a comparison with a number of food and beverage contracts for other fairs, shows the probable loss range to be between \$3 million and \$7 million over 20 years.

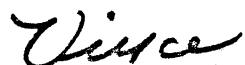
The financial problems of the food and beverage concession contractor will probably continue to impede the normal payment of rent. However, the actions taken to date in federal court do not appear to permit the state to terminate this contract.

Honorable Pauline Davis
May 8, 1973
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Administrative problems regarding the amusement contract are described in the report.

With my warm best wishes,

Sincerely,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

As a part of the examination of the California Exposition and Fair, we have reviewed the operations under the two long-term contracts to which Cal-Expo is a party. They are a twenty-year contract beginning January 1, 1968 with Ancorp National Services, Inc. for the exclusive right to sell food, beverages and other items, and a twenty-one year contract beginning March 21, 1971 with Atlas Greater Shows, a division of Atlas Amusement Enterprises, Inc. for exclusive amusement park operations.

Compared to food and beverage concession and amusement contracts of other fairs, these two contracts are unique in regard to the following:

- Time Period - Most agricultural district and county fair contracts are negotiated or bid annually
- Capital Investments - Both contractors are required to make capital improvements, and
- Carnival Area Food Concession - Ancorp's exclusive food and beverage contract covers the total grounds, including the carnival area; most local fairs include the carnival midway food concession in the amusement contract.

The purpose of entering into long-term contracts was to induce private investment in the facilities. Ancorp is permitted to retain one-half

of the rental charges to recover its capital investment while Atlas is required to invest one percent of its receipts during the fair period in permanent improvements and four percent in movable or semi-movable equipment in addition to making specified initial improvements.

The difference between the lesser amounts received under these contracts and what would be realized under the usual fair contracts that do not require capital investments represents the costs to the state of:

1. The improvements made by the contractors
2. The interest on the capital expenditures
3. The added risk assumed by the contractors because capital investment was required
4. An unascertained reduction because of lessened competition since a major part of the fair industry was excluded by the investment requirements.

SUMMARY OF FINDINGS

The Ancorp agreement provided for Ancorp to invest approximately \$2 million in capital improvements and to recover these expenditures by retaining 50 percent of the annual rent payment until the total amount is recovered. The total amount expended for capital assets was subsequently increased to \$2,525,182. The Atlas amusement contract requires Atlas to make improvements that are estimated to cost approximately \$450,000 which costs it presumably will recover from earnings on the contract.

Two sets of comparisons were made with other fairs.

A comparison with the Fresno Fair showed that, even after adding back to the revenue amounts deducted for recovery of the annual amount for capital improvements at the State Fair, the amount of rent revenue received from the amusement and food and beverage concessions on a per-fair visitor basis is substantially more at the Fresno Fair than at the State Fair. Although both the number of days of operation and total attendance of the 1972 fair at Fresno was approximately one-half of that of the State Fair, the revenue realized from these concessions by the Fresno Fair was only 17 percent less than from the State Fair. Based on the amount of revenue derived from each visitor at the Fresno Fair, the State Fair had a revenue loss of between \$250,000 and \$280,000. Over a 20-year period, this would result in a revenue loss to the State Fair of between \$5 million and \$5.6 million.

A comparison of the revenue percentages specified in the food and beverage concession contracts of a number of other fairs with the 15 percent

specified in the Cal-Expo Ancorp contract shows that the revenue derived by Cal-Expo from this source, even after adding back allowances for capital improvements, is substantially less than that realized by other major fairs. The carnival contract also produces less revenue per-fair visitor than other major fairs.

Based on these comparisons, the probable annual loss of revenue from these two sources would range from a low of \$155,000 (\$55,000 food and beverage plus \$100,000 amusement) to a high of \$369,000 (\$269,000 food and beverage plus \$100,000 amusement). On a 20-year basis, this would range from a low of \$3 million to a high of \$7 million.

At present it does not appear that the recent filing under Chapter 11 of the federal Bankruptcy Act by the State Fair food and beverage concession contractor enables the state to terminate the contract.

The basis for establishing the state revenue from amusement operations is the least reliable of the three methods in current use. Numerous problems have been experienced in administering the amusement contract.

GENERAL EVALUATION

The amount of rent realized from amusement and food and beverage concession operators is a major factor affecting the financial success of fairs. The variation in size among the 76 local fairs obviously causes variations in revenue. Comparison of operations is enabled by expressing the rent revenues realized as the amount per-fair visitor.

FINDINGS

THE PER-FAIR VISITOR AMOUNT OF RENT REVENUE FROM AMUSEMENT AND FOOD AND BEVERAGE CONCESSION OPERATORS IS SUBSTANTIALLY MORE AT THE FRESNO FAIR THAN AT THE STATE FAIR.

The Twenty-first District Agricultural Association Fair at Fresno is regarded as one of the more successful fairs. The fair operates in the fall after school has opened for ten days, which is one-half of the number of days of the 1972 State Fair. Total attendance is approximately one-half of the State Fair.

The following computation of the 1972 revenue per-fair visitor includes both the current investment requirement and the estimated amortization of prior improvements made by the two contractors. The amusement contractor has not provided an accounting of the improvements made by him; therefore, we have estimated the amount of the amortization based on the estimated costs contained in the contract. The inclusion of contract improvement requirements, as if rent realized by the state, results in the rental income for the State Fair being \$70,000 greater than for the Fresno Fair. However, the income per-fair visitor for the State Fair is considerably under the Fresno income.

	<u>Revenue</u>	<u>Attendance</u>	<u>Per Capita Revenue</u>
Twenty-first Agricultural District - Fresno 1972 Fair:			
Revenue from amusements	\$182,300		
Concession revenue	<u>155,500</u>		
Total	<u><u>\$337,800</u></u>		
Total attendance and per capita revenue		460,100	\$0.73
Paid attendance and per capita revenue		244,000	1.39
California 1972 State Fair:			
Revenue from amusements:			
Cash receipt from carnival contractor	\$230,000		
Current capital improvement requirements and amortiza- tion of contractor's initial capital investments	25,700		
Revenue from rides in other than carnival area	18,700		
Revenue from food and beverage concession - gross rental from contractor applicable to State Fair period	<u>132,900</u>		
Total	<u><u>\$407,300</u></u>		
Total attendance and per capita revenue		932,600	0.44
Paid attendance and per capita revenue		469,500	0.87

Fresno per capita income on total attendance basis is 66 percent larger than the State Fair and 60 percent larger on paid attendance basis. The difference reflects the fact a higher percentage of State Fair visitors are admitted free.

Since the above computation includes both the current investment requirements and initial investment amortization the differences in the per capita income to the state are attributed to the following factors:

- Interest on investments made by the contractors
- The risk assumed by the contractors because of the absence of assurance that capital expenditures will be recovered, and
- The effects of the reduction in competition caused by the investment requirements.

If the state had realized the same amount of revenue per-fair visitor in Sacramento as in Fresno, the revenue would have increased between \$244,000 and \$270,000.

ANCORP CONTRACT

The annual rental for the food and beverage contract is based on gross receipts, and specifies 15 percent on the first \$3 million, 17.5 percent on the next \$1 million and 25.5 percent on the excess of \$4 million. The contract specifies that Ancorp is to expend \$2 million for facilities construction and equipment. By letter the executive committee increased this amount to \$2,525,182. In separate contracts, the rental for novelties is specified at 18 percent and photo maps at six percent. One-half of the rental is retained by Ancorp from payments until the capital expenditures made by Ancorp are fully recovered. The following tabulation summarizes the gross receipts, total rent and the retentions to recover capital expenditures.

<u>Year</u>	<u>Receipts</u>	<u>Total Rent</u>	<u>Retention</u>
1968	\$ 928,152	\$ 142,503	\$ 71,251
1969	1,228,961	186,482	93,241
1970	1,508,016	229,356	114,678
1971	1,574,116	237,906	118,953
1972	<u>1,551,226</u>	<u>234,420</u>	<u>117,210</u>
Total	<u>\$6,790,472</u>	<u>\$1,030,667</u>	<u>\$515,333</u>

CONTRACTOR'S FINANCIAL CONDITION

The contract provides that the state may elect to cancel the agreement in the event that Ancorp (1) is adjudged bankrupt, (2) makes an assignment for the benefit of creditors, (3) has a receiver appointed, (4) has its property

attached or (5) has a keeper placed in charge of operations. In the event of termination, Ancorp is to be reimbursed for its unamortized investment, either forthwith or in installments over the remainder of the original 20-year term with unpaid installments bearing interest at six percent.

On March 20, 1973, the contractor petitioned the federal district court for an arrangement under Chapter XI of the federal Bankruptcy Act known as the Chandler Act. We are advised that the section of the act under which the contractor filed does not, per se, constitute an action described in the contract as providing an election to the state to terminate.

A copy of a statement entitled "Exhibit B, Ancorp National Services, Inc., Estimated Assets and Liabilities as at March 16, 1973", is included as an appendix to this report. It indicates that the total assets are estimated to be \$49,541,000 and total liabilities as \$44,412,500.

FINDING

RENT REVENUE INCLUDING THE RETENTION FOR CAPITAL IMPROVEMENTS IS SUBSTANTIALLY LESS THAN THAT REALIZED BY OTHER MAJOR FAIRS.

Following is a summary of the rental provisions in food and beverage leases of other major fairs.

- The 1-A District Agricultural Association (Cow Palace) is operating with a five year exclusive lease specifying that the lessee is to provide approximately \$75,000 in capital improvements and a rental based on the following percentages of gross receipts: restaurants - 10.5 percent,

bars - 37 percent, food stands and vending machines - 37.5 percent, catering - 20 percent, and free-pour bars - 25 percent.

- The 21st District Agricultural Association in Fresno enters into agreements with individual food and beverage contractors, most of whom pay 20 percent of gross receipts including sales tax with minimum specified amounts. The annual contract for interim food and beverage also is for 20 percent of gross receipts. Grandstand concessions during the fair pay 32 percent on liquor and 25 percent on other sales.
- The 15th District Agricultural Association in Kern County enters into separate agreements with food and beverage contractors most of whom pay 20 percent of gross receipts with minimum specified amounts.
- The 22nd District Agricultural Association in San Diego County enters into separate agreements with food and beverage contractors who pay 18 percent, 20 percent or 25 percent. Minimum payments range from \$350 to \$5,000.
- Most food and beverage concessionaires at the Los Angeles County Fair pay 18 percent. Grandstand concessionaires pay 25 percent. There is a substantial range in minimum payments.
- At the Sonoma County Fair the liquor contractor for the race track grandstand pays 43 percent of gross, while the food concessionaire in the same area pays 32 percent. All other

concessionaires outside of the racing area pay 25 percent on food and soft drinks and 30 percent on beer. Minimum payments are required.

The concession percentages of the other major fairs listed above shows that it is a common practice to specify different percentages by type of sale. Following is a summary of these percentages.

<u>Type of Sales</u>	<u>Percent</u>
Food and beverage stands	18% to 37.5%
Grandstand beverage	25% to 43%
Restaurant and bars - food	10.5%
Restaurant and bars - beverage	25% to 37%
Interim catering	20%

Applying these percentages to the 1972 gross receipts of the Cal-Expo contractor would have produced an increase in revenue to the state of between \$55,200 (using the lowest percentages) and \$269,500 (using the highest percentages).

ATLAS CONTRACT

The 21 year amusement park lease specifies a minimum payment of \$230,000 for each fair season or 35 percent of gross receipts of the lessee, whichever is greater. For interim operations, the payment is five percent of receipts up to \$250,000, ten percent of receipts from \$250,000 to \$500,000 and 15 percent of receipts in excess of \$500,000. In addition the following investments are required of the contractor:

- Five percent of the lessee's gross receipts during the fair period and 25 percent of the lessee's gross receipts during the interim period are to be invested in improvements. One-fifth is to be permanent improvements which become the property of the state, and four-fifths is to be invested in movable or semi-movable equipment which remain the property of the contractor.
- The construction of one permanent ride, the surfacing and lighting of a portion of amusement ground area and the construction of rest room facilities is a general condition of the lease.

There has been no accounting by the contractor for investment requirements. For the purposes of making comparison with other fair amusement operations we have used the estimated costs specified in the contract of \$450,000.

The following three methods of establishing the rental amount in amusement contracts are being used by the various fairs:

1. Percentage of gross receipts as determined by the contractor
2. Percentage of gross receipts as determined by fair personnel, and
3. A per capita amount per-fair visitor.

The first method is used in the State Fair contract.

FINDING

THE CARNIVAL CONTRACT PRODUCES LESS REVENUE PER-FAIR VISITOR THAN OTHER MAJOR FAIRS AND REQUIRES TRUST IN THE LEAST RELIABLE METHOD OF ESTABLISHING STATE REVENUE.

Audits of the carnival have not been performed during the fair operations. Because state revenue is a percentage of the receipts, total reliance is placed upon the contractor's reported income. The following two methods, which minimize or avoid the problems of determining the carnival operators' gross revenue, are used by other fairs.

- Fair employees rather than carnival employees operate ticket booths.
- Bids are based on either per capita total attendance or per capita paid attendance.

The first method is used by the 22nd District Agricultural Association in San Diego which enters into separate contracts with individual ride, game and show concessionaires. Ride and show operators are paid 55 percent of gross receipts while game operators pay a flat amount for space. The association engages a booking agent to provide the services which would be provided by a single carnival operator.

Following are examples of the major fairs which executed single amusement contracts with bids based on per capita fair attendance during 1972.

- Fifteenth District Agricultural Association in Kern County - Pacific Coast Shows, a minimum of \$101,851 or 63.5 cents for each person admitted to the fair except employees of the carnival and the district.
- Twenty-first District Agricultural Association in Fresno County - Foley and Burk Combined Shows, a minimum of \$156,000 or 42.5 cents for each person admitted to the fair except employees of the carnival and the district.

Both in 1971 and 1972 only the minimum payment of \$230,000 specified in the California Exposition and Fair amusement contract was made for the fair period. Following is a tabulation of the 1972 revenue, attendance and revenue per-fair visitor for the above two fairs which use the per capita method for determining the rental amount in their leases and the State Fair. The amortization of the initial investment and the current investment requirements are included for the State Fair as revenue.

	<u>Revenue</u>	<u>Attendance</u>	<u>Revenue Per Visitor</u>
Fifteenth District - Kern County	\$101,900	209,900	\$0.49
Twenty-first District -Fresno County	182,400	460,100	0.40
State Fair:			
Cash	\$230,000		
Current Investment Requirement	4,700		
Initial Investment Amortization	<u>21,000</u>	255,700	932,600 0.27

One of the unique features regarding the two long-term contracts which is noted in the introduction is that carnival area food and beverage concession is part of the Ancorp contract. For the above two local fairs, as is the usual practice, the midway food and beverage concession is part of the amusement contract. This explains, in part, the lower per capita amount for the State Fair amusement contract. The significance of this factor, however, cannot be evaluated due to the absence of comparable data.

The Fresno income per-fair visitor is 48 percent greater than the State Fair income. The Kern County income is 82 percent greater than the State Fair income. If the State Fair had realized the same per capita income as that at Fresno, revenue would have been increased by over \$100,000.

FINDING

NUMEROUS PROBLEMS HAVE BEEN EXPERIENCED IN ADMINISTERING THE AMUSEMENT CONTRACT.

FINANCIAL

Failure to pay bills - Atlas has failed to pay bills for events occurring during the 1971 fair. Cal-Expo has, after numerous attempts on the part of their management, turned these bills over to their attorney for collection. They are as follows:

- Atlas has failed to pay for the utility services provided during the 1971 fair. The state pays utility bills and allocates costs to the users based on meter readings in their area. The total due for utilities is \$1,501.73.
- A bill for services and materials used at the 1971 fair in the amount of \$1,994.99 is still outstanding.
- The percentage of gross on a boat ride at the 1971 fair in the amount of \$1,659.71 has not been paid.

Failure to substantiate gross receipts - The contract provides that Atlas will pay in cash and capital improvements a specified percentage of their gross receipts. To enable determining the accuracy of the amount reported as gross receipts, the contract provides the following controls.

- All receipts are to be deposited in a joint bank account daily.
- Certified financial statements are to be provided annually.
- The state may within two years conduct an audit of the books and records.

To date, no financial statements, certified or uncertified, have been provided for either 1971 or 1972. Gross receipt records have not yet been provided for each ride at the 1972 fair. The revenue statement provided for the 1972 fair did not match the detailed receipt books. No detailed receipt books have been received for the 1971 fair. Deposits were not made to the joint bank account at the beginning of the 1972 fair.

At the present time, there is no assurance that the gross receipts reported by Atlas Greater Shows for the 1971 and 1972 fairs are substantially correct.

FACILITIES

Failure to construct facilities according to the contract - The contract requires Atlas to build rides and amusement facilities on the grounds in the amusement park area. Before the 1971 fair, Atlas was to pave the ground and provide lighting in the midway area, to build a major ride, and to build a rest room. For the years thereafter, Atlas is to devote a percentage of gross receipts to the construction of permanent facilities. In advance of any such construction, Atlas is to obtain approval of the plans by Cal-Expo and to provide a bond to cover any material and labor liens that might arise.

Atlas paved the midway area in time for the 1971 fair. A major ride, the Flume ride, was installed but it was of a lower capacity than the executive committee had been lead to believe it would be. The rest rooms were not completed until the second week of the 1972 fair. The required bond was not provided for any of this construction.

Failure to provide cost of facilities - Based on the gross receipt figures supplied, \$21,475 should have been invested in 1972, and \$24,116 should be invested

in 1973 in permanent and movable facilities. Of this, 20 percent must be invested in permanent facilities, and 80 percent in movable and semi-movable equipment. To date, no cost figures have been provided by Atlas for any facility, permanent or temporary. No determination has been made as to whether or not Atlas Greater Shows is complying with the contract.

Failure to reach an agreement with Ancorp as to the placement of food stands in the amusement area - Ancorp has sole right to sell food on the Cal-Expo grounds. According to the contract, agreement is to be reached regarding the location in the amusement park of the various permanent and temporary food stands to be installed by Ancorp. To date, no agreement has been reached, and as a result, Cal-Expo employees designate the location of temporary food stands.

Placed trailer on the grounds - The contract forbids Atlas to place live-in trailers on the grounds in the amusement park area. A separate part of the grounds in the stable area has been set aside for trailers belonging to fair employees. Trailers belonging to Atlas employees have been moved into the amusement park area for permanent as well as temporary employees. To date, Atlas has refused to move these trailers to the trailer area thus creating a public nuisance in the amusement park.

RIDE OPERATIONS

Failure to properly deal with employees - Complaints were received in regards to the failure of Atlas to pay the salary amounts agreed to by temporary employees. It was reported that Atlas charged employees for the uniforms which are required by the contract. Also, few uniforms were worn which also is in violation of the contract. Cal-Expo records note several violations of the Industrial Safety Code regarding subjecting employees to undue hazards.

Failure to control sub-concessionaires - Several sub-concessionaires with portable rides left the fair before it closed in direction violation of the contract.

MISCELLANEOUS

Failure to clean the grounds - The contract requires Atlas Greater Shows to clean the grounds in their area. A complaint was received from the Sacramento County Department of Public Health as to the uncleanliness of the carnival area during the 1971 and 1972 fairs.

Failure to provide publicity - The contract requires Atlas to publicize the fair and their amusement park operations. Cal-Expo claims that no publicity was provided. Atlas disagrees claiming that they distributed posters in Stockton and Lodi and provided bumper stickers. Cal-Expo claims that this is not the type of publicity referred to in the contract. The contract is general and calls for "an extensive program for promotion and advertising purposes to capture the interest of the public in the amusement park".



Walter J. Quinn
Acting Deputy Auditor General

May 4, 1973

Staff: Wesley Voss
Nancy Szczepanik

EXHIBIT "B"ANCORP NATIONAL SERVICES, INC.ESTIMATED ASSETS AND LIABILITIES
AS AT MARCH 16, 1973ASSETS

Cash	\$ 600,000.
Accounts Receivable (Net of Allowances for Bad Debts)	8,000,000.
Inventory (at lower of cost or market)	12,000,000.
Prepaid Expenses (including insurance and commissions)	500,000.
Fixed Assets (Book Value)	
Land	\$ 1,045,000.
Buildings (net of depreciation)	<u>2,035,000,</u> 3,080,000.
Fixed Assets (equipment and leasehold improvements - net of depreciation)	19,000,000.
Security Deposits with landlords	90,000.
United States Government Bonds on Deposit with Workmen's Compensation Boards and Landlords)	700,000.
Investment in Subsidiaries (at cost)	<u>5,571,000.</u>
<u>TOTAL ASSETS</u>	<u>\$ 49,541,000.</u>

LIABILITIES

Accounts Payable	\$ 18,500,000.
Due to Lending Institutions	16,800,000.
Accrued Taxes	3,500,000.
Notes Payable	1,362,500.
Mortgage Payable (secured by building at 131 Varick Street, New York, New York)	<u>4,250,000.</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 44,412,500.</u>

California State Exposition and Fair
 Estimated Source and Application of Funds
Fiscal Year 1972-73

SOURCE OF FUNDS

State Funds		
General Fund.		
Support appropriation	\$ 595,759	
Bond interest appropriation	<u>1,130,000</u>	
Total General Fund		\$1,725,759
 State Fair Fund		
Statutory appropriation	265,000	
Deficiency appropriation	<u>210,854</u>	
Total State Fair		<u>475,854</u>
 Total State Funds		\$2,201,613
 Revenues		
Admissions	495,933	
Parimutual wagering	699,470	
Parking	111,315	
Concessions and commercial		
Exclusive food and beverage concession	65,800	
Amusement park concession	230,400	
Other concessions	25,700	
Commercial	<u>113,100</u>	
Total Concessions and Commercial		435,000
Exhibit Entry Fees and Miscellaneous	11,000	
Interim Building Rents	<u>188,000</u>	
 Total Revenues		1,940,718
 Reimbursements		<u>94,000</u>
 TOTAL - SOURCE OF FUNDS		<u>\$4,236,331</u>

APPLICATION OF FUNDS

Operating Expenses		
Personnel Services	\$1,381,692	
Operating Expenses	<u>1,724,639</u>	
Total Operating Expenses		\$3,106,331
 Interest on Bonds		<u>1,130,000</u>
 TOTAL APPLICATION OF FUNDS		<u>\$4,236,331</u>